

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF KENTUCKY)	CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH)	2020-00170
BILLING PERIOD ENDING OCTOBER 31, 2019)	

DIRECT TESTIMONY OF

ANDREA M. FACKLER
MANAGER, REVENUE REQUIREMENT/COST OF SERVICE
LG&E AND KU SERVICES COMPANY

Filed: JULY 8, 2020

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Andrea M. Fackler**, being duly sworn, deposes and says that she is Manager - Revenue Requirement/Cost of Service for LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of her information, knowledge and belief.

Andrea M. Fackler

Andrea M. Fackler

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of July 2020.

Judy Schoter (SEAL)
Notary Public

Notary Public, ID No. 603967

My Commission Expires:

7/11/2022

1 **Q. Please state your name, title, and business address.**

2 A. My name is Andrea M. Fackler. I am the Manager, Revenue Requirement/Cost of
3 Service for Kentucky Utilities Company (“KU” or “Company”) and an employee of
4 LG&E and KU Services Company, which provides services to KU. My business
5 address is 220 West Main Street, Louisville, Kentucky, 40202. A complete statement
6 of my education and work experience is attached to this testimony as Appendix A.

7 **Q. Have you previously testified before this or any other Commission?**

8 A. Yes. I submitted testimony and sponsored data responses to the Kentucky Public
9 Service Commission (“Commission”) regarding KU’s and its sister utility Louisville
10 Gas and Electric Company’s (“LG&E”) 2020 ECR Plan filings¹. I also sponsored data
11 responses to the Commission for KU’s and LG&E’s most recent fuel adjustment clause
12 six-month review cases² and LG&E’s annual Gas Line Tracker filing³, was responsible
13 for data and information provided to the Commission for KU’s and LG&E’s data
14 responses in a variety of proceedings over the last four years, and submitted testimony

¹ *Application of Kentucky Utilities Company for Approval of its 2020 Compliance Plan for Recovery by Environmental Surcharge*, Case No. 2020-00060, Response of Kentucky Utilities Company to Commission Staff’s Initial Request for Information Dated May 6, 2020 (Ky. PSC May 22, 2020); *Application of Louisville Gas and Electric Company for Approval an Amended 2020 Environmental Compliance Plan and a Revised Environmental Surcharge*, Case No. 2020-00061, Response of Louisville Gas and Electric Company to Commission Staff’s Initial Request for Information Dated May 6, 2020 (Ky. PSC May 22, 2020).

² *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from May 1, 2019 to October 31, 2019*, Case No. 2020-00006, Response of Kentucky Utilities Company to Commission Staff’s First Request for Information Dated February 11, 2020 (Ky. PSC Feb. 25, 2020); *An Examination of the Application of the Fuel Adjustment Clause of Louisville Gas and Electric Company from May 1, 2019 to October 31, 2019*, Case No. 2020-00007, Response of Louisville Gas and Electric Company to Commission Staff’s First Request for Information Dated February 11, 2020 (Ky. PSC Feb. 25, 2020).

³ *Electronic Application of Louisville Gas and Electric Company for Approval of Revised Rates to be Recovered Through Its Gas Line Tracker*, Case No. 2020-00032, Response of Louisville Gas and Electric Company to Commission Staff’s First Request for Information Dated April 7, 2020 (Ky. PSC April 17, 2020).

1 to and sponsored data responses to the Virginia State Corporation Commission
2 regarding KU's 2020 Levelized Fuel Factor filing⁴.

3 **Q. What is the purpose of this proceeding?**

4 A. The purpose of this proceeding is to review the past operation of KU's environmental
5 surcharge during the six-month billing period ending October 31, 2019 and determine
6 whether the surcharge amounts collected during the period are just and reasonable.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to summarize the operation of KU's environmental
9 surcharge during the billing period under review, demonstrate that the amount collected
10 during the period was just and reasonable, present and discuss KU's proposed
11 adjustment to the Environmental Surcharge Revenue Requirement based on the
12 operation of the surcharge during the period and explain how the environmental
13 surcharge factors were calculated during the period under review.

14 **Q. Please summarize the operation of the environmental surcharge for the billing
15 period included in this review.**

16 A. KU billed an environmental surcharge to its customers from May 1, 2019 through
17 October 31, 2019. For purposes of the Commission's examination in this case, the
18 monthly KU environmental surcharges are considered as of the six-month billing
19 period ending October 31, 2019. In each month of the six-month period under review
20 in this proceeding, KU calculated the environmental surcharge factors in accordance
21 with its ECR Tariff and the requirements of the Commission's previous orders
22 concerning KU's environmental surcharge. The calculations were made in accordance

⁴ *Application of Kentucky Utilities Company d/b/a Old Dominion Power Company to Revise Its Fuel Factor*, Case No. PUR-2020-00029, Direct Testimony of Andrea M. Fackler (Va. SCC filed Feb. 14, 2020).

1 with the Commission-approved monthly forms and filed with the Commission ten days
2 before the new monthly factor was billed by the Company.

3 **Q. What costs were included in the calculation of the environmental surcharge**
4 **factors for the billing period under review?**

5 A. The capital and operating costs included in the calculation of the environmental
6 surcharge factors for the six-month billing period under review were the costs incurred
7 each month by KU from March 2019 through August 2019, as detailed in the
8 attachment to the response to Question No. 2 of the Commission Staff's First Request
9 for Information, incorporating all required revisions.

10 The monthly environmental surcharge factors applied during the billing period
11 under review were calculated consistent with the Commission's Orders in KU's
12 previous applications to assess or amend its environmental surcharge mechanism and
13 plan, as well as, Orders issued in previous review cases. The monthly environmental
14 surcharge reports filed with the Commission during this time reflect the various
15 changes to the reporting forms ordered by the Commission from time to time.

16 **Q. Please describe the most recently approved changes to KU's ECR Compliance**
17 **Plan.**

18 A. In Case No. 2017-00483, the Commission approved KU's request to amend its 2016
19 ECR Compliance Plan and approval of a Certificate of Public Convenience and
20 Necessity ("CPCN"). The amendment allowed KU to construct a smaller coal
21 combustion residuals landfill than the Commission had previously approved and cap
22 and close the remaining surface areas of the main ash pond at Brown. Pursuant to the
23 Commission's July 9, 2018 Order approving the requested amendment and CPCN, KU

1 began including the amended project in the monthly filing for the June 2018 expense
2 month that was billed in August 2018.

3 **Q. Please describe the most recently approved changes to the environmental**
4 **surcharge mechanism and the monthly ES forms.**

5 A. There were two changes approved in Case No. 2019-00014.

6 First, the Commission increased the return on equity to be used in the monthly
7 environmental surcharge filings to 9.725% for all ECR Plans. Pursuant to the
8 Commission's April 30, 2019 Order, the changes were implemented with the April
9 2019 expense month that was billed in June 2019.

10 Second, the Commission approved a form change on ES Form 2.00 which
11 eliminated the section for Proceeds From By-Product and Allowance Sales.

12 **Q. Is KU proposing any changes to its Environmental Cost Recovery Surcharge**
13 **tariff?**

14 A. No. There are no needed changes to the Environmental Cost Recovery Surcharge tariff.

15 **Q. Is KU proposing any changes to the environmental surcharge mechanism and the**
16 **monthly ES forms?**

17 A. No, there are currently no needed changes to the ES Forms.

18 **Q. Are there any changes or adjustments in Operating Expenses from the originally**
19 **filed expense months?**

20 A. Yes. For the period under review, there are two updates to Operating Expenses that
21 are reflected in the attachment to the response to Question No. 2 of Commission Staff's
22 First Request for Information. The first update relates to \$253,984 in expenses for
23 account 512107 - Landfill Maintenance, which is related to the coal combustion

1 residuals treatment facility (“CCRT”) at Trimble County, that were inadvertently
2 excluded from ES FORM 2.50 for expense months April through August 2019 of the
3 period under review. When the error was discovered, the expenses were included in
4 the December 2019 expense month filing. Because the monthly revenue requirement
5 impacts were not significant (total understated jurisdictional E(m) was \$234,813 for
6 April through August 2019 and total overstated jurisdictional E(m) for December 2019
7 when corrected was \$237,361), KU did not restate the prior months’ ECR filings and
8 instead is correcting them in this review case. The impact of this issue on operating
9 expenses and the cash working capital component of rate base is reflected in the
10 attachments to the responses to Question Nos. 1 and 2.

11 The second update relates to the issue identified by Commission Staff in
12 Question No. 7 of Commission Staff’s First Request for Information. As noted in the
13 response, upon Commission approval to treat the Project 36 Brown Station Main Pond
14 as a retired pond, the CCR closure costs associated with the Brown Station Main Pond
15 should have been amortized over the remaining 8-year period approved for retired
16 ponds instead of the 25-year period approved for active ponds. When the error was
17 discovered, the corrected amortization expense was included in the August 2019
18 expense month filing. Because the monthly revenue requirement impacts were not
19 significant (total overstated jurisdictional E(m) was \$49,123 for March 2019 through
20 August 2019), KU did not restate the prior months’ ECR filings and instead is
21 correcting them in this review case. The impact of this issue on operating expenses and
22 the net unamortized closure cost balances component of rate base is reflected in the
23 attachments to the responses to Question Nos. 1 and 2.

1 **Q. Are there any changes or adjustments in Rate Base from the originally filed**
2 **expense months?**

3 A. Yes. As discussed previously, both issues impacted rate base as well. The impact on
4 rate base is reflected in the attachments to the responses to Question Nos. 1 and 2. No
5 other changes or adjustments in rate base from the originally filed expense months is
6 necessary for the period under review.

7 **Q. Are there any other changes necessary to the jurisdictional revenue requirement**
8 **(E(m))?**

9 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's Order
10 in Case No. 2000-00439, to reflect the actual changes in the overall rate of return on
11 capital that is used in the determination of the return on environmental rate base.

12 Pursuant to the terms of the Settlement Agreement approving the 2011 ECR
13 Plan, KU calculated the short- and long-term debt rate using average daily balances
14 and daily interest rates in the calculation of the overall rate of return true-up adjustment
15 for the six-month expense period ending August 31, 2019. For the March 2019 expense
16 month, the weighted average cost of capital was based on the average daily balances as
17 of March 31, 2019 and the 9.700% authorized return on equity for all Plan projects.
18 For the April 2019 through August 2019 expense months, the weighted average cost of
19 capital was based on the average daily balances as of August 31, 2019 and the 9.725%
20 return on equity for all Plan projects. The details of and support for these calculations
21 are shown in the attachment to KU's response to Question No. 1 of the Commission
22 Staff's First Request for Information.

1 **Q. Are there any other corrections to information provided in the monthly filings**
2 **during the billing period under review?**

3 A. No.

4 **Q. As a result of the operation of the environmental surcharge during the billing**
5 **period under review, is an adjustment to the revenue requirement necessary?**

6 A. Yes. KU experienced an over-recovery of \$1,625,177 for the billing period ending
7 October 31, 2019. KU's response to Question No. 2 of the Commission Staff's First
8 Request for Information shows the calculation of the over-recovery. An adjustment to
9 the revenue requirement is necessary to reconcile the collection of past surcharge
10 revenues with actual costs for the billing period under review.

11 **Q. Has KU identified the causes of the over-recovery during the billing period under**
12 **review?**

13 A. Yes. KU has identified the primary components that make up the over-recovery during
14 the billing period under review. The primary components are: (1) changes in overall
15 rate of return as previously discussed and (2) the use of 12-month average revenues to
16 determine the billing factor. The details and support of the primary components that
17 make up the over-recovery during the billing period under review are shown in KU's
18 response to Question No. 2 of the Commission Staff's First Request for Information.

19 **Q. Please explain how the function of the ECR mechanism contributes to the**
20 **recovery position in the billing period under review.**

21 A. The use of 12-month average revenues to calculate the monthly billing factors and then
22 applying those same billing factors to the actual monthly revenues will result in an
23 over- or under-collection of ECR revenues. The table below shows a comparison of

1 the 12-month average revenues used in the monthly filings to determine the ECR billing
 2 factors and the actual revenues to which the ECR billing factors were applied in the
 3 billing month.

Expense Month	12-Month Average Revenues	Billing Month	Actual Revenues Subject to ECR Billing Factors
March 2019	\$103,669,209	May 2019	\$89,711,017
April 2019	\$102,610,971	June 2019	\$104,367,311
May 2019	\$102,327,361	July 2019	\$119,060,645
June 2019	\$102,432,976	August 2019	\$118,194,377
July 2019	\$103,060,569	September 2019	\$113,432,739
August 2019	\$103,774,354	October 2019	\$109,526,224
*The 12-month average revenues and the Actual Revenues subject to ECR Billing Factors reflect net revenues for Groups 1 and 2.			

4

5 Generally, an under-recovery will occur when actual revenues for the billing
 6 month are less than the 12-month average revenues used for the expense month.
 7 Likewise, an over-recovery will usually occur when actual revenues for the billing
 8 month are greater than the 12-month average revenues used for the expense month.

9 **Q. What kind of adjustment is KU proposing in this case as a result of the operation**
 10 **of the environmental surcharge during the billing period?**

11 A. KU is proposing that the over-recovery be distributed over three months following the
 12 Commission's Order in this proceeding. Specifically, KU recommends that the
 13 Commission approve a decrease to the Environmental Surcharge Revenue
 14 Requirement of \$541,726 for three months beginning in the second full billing month
 15 following the Commission's Order in this proceeding. This method is consistent with
 16 the method of implementing previous over- or under-recovery positions in prior ECR
 17 review cases.

1 **Q. What is the bill impact on a residential customer for the proposed distribution of**
2 **the over-recovery?**

3 A. The inclusion of the distribution reflecting the over-recovery position in the
4 determination of the ECR billing factor will decrease the billing factor by
5 approximately 0.42% per month for three months. For a residential customer using an
6 average of 1,134 kWh per month, the impact of the adjusted ECR billing factor would
7 be a decrease of approximately \$0.48 for each of the three months (using rates and
8 adjustment clause factors in effect for the March 2020 billing month).

9 See the response and attachment to Commission Staff's First Request for
10 Information Question No. 6.

11 **Q. What rate of return is KU proposing to use for all ECR Plans upon the**
12 **Commission's Order in this proceeding?**

13 A. KU is recommending an overall rate of return on capital of 8.86%, including the
14 currently approved 9.725% return on equity and adjusted capitalization, to be used to
15 calculate the environmental surcharge. This is based on capitalization as of August 31,
16 2019, the Commission's Order of October 22, 2019 in Case No. 2019-00205, and the
17 continued use of the federal corporate income tax rate implemented in accordance with
18 the Tax Cuts and Jobs Act and the Kentucky state corporate income tax rate
19 implemented in accordance with Kentucky House Bill 487.

20 See the response and attachment to Commission Staff's First Request for
21 Information Question No. 5.

22 **Q. What is your recommendation to the Commission in this case?**

23 A. KU makes the following recommendations to the Commission in this case:

- 1 a) The Commission should approve the proposed decrease to the Environmental
2 Surcharge Revenue Requirement of \$541,726 for three months beginning in the
3 second full billing month following the Commission's Order in this proceeding;
- 4 b) The Commission should determine the environmental surcharge amount for the
5 six-month billing period ending October 31, 2019 to be just and reasonable,
6 and;
- 7 c) The Commission should approve the use of an overall rate of return on capital
8 of 8.86% for all projects, using a return on equity of 9.725%, beginning in the
9 second full billing month following the Commission's Order in this proceeding.

10 **Q. Does this conclude your testimony?**

11 A. Yes.

APPENDIX A

Andrea M. Fackler, CPA, CGMA

Manager, Revenue Requirement/Cost of Service
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202

Previous Positions

LG&E and KU Services Company	
Rate & Regulatory Analyst III & Senior	Jan 2016 – Nov 2019
Accounting Analyst III & Senior	Aug 2012 – Jan 2016
Accounting Analyst II & III	Jul 2010 – Aug 2012
Dean Dorton Ford, PSC	
Supervisor in Accounting and Compliance Services	Jan 2007 – May 2010

Professional/Trade Memberships

American Institute of Certified Public Accountants
Kentucky Society of Certified Public Accountants (“KSCPA”)
Institute of Management Accountants

Education/Training

LG&E and KU Strategic Business Integration, 2017-2018 Cohort
Bachelor of Science in Accounting, University of Kentucky, Dec 2006
Bachelor of Business Administration, University of Kentucky, Dec 2006

Civic Activities

Baptist Health NICU Family Advisory Council, 2019 – Current
Members in Business and Industry Committee Member, KSCPA, July 2017 – Current
President-Elect, President, and Immediate Past President, LG&E and KU Young Energy Professionals, 2015-2017
Member and Chair of Communications and Marketing Committee, LG&E and KU Young Energy Professionals, 2013-2014